



National Audit Office

**REPORT BY THE
COMPTROLLER AND
AUDITOR GENERAL**

**HC 296
SESSION 2009–2010**

19 MARCH 2010

Department for Business, Innovation & Skills

The Customer First Programme: Delivery of student finance

Our vision is to help the nation spend wisely.

We promote the highest standards in financial management and reporting, the proper conduct of public business and beneficial change in the provision of public services.

The National Audit Office scrutinises public spending on behalf of Parliament. The Comptroller and Auditor General, Amyas Morse, is an Officer of the House of Commons. He is the head of the National Audit Office which employs some 900 staff. He and the National Audit Office are totally independent of Government. He certifies the accounts of all Government departments and a wide range of other public sector bodies; and he has statutory authority to report to Parliament on the economy, efficiency and effectiveness with which departments and other bodies have used their resources. Our work leads to savings and other efficiency gains worth many millions of pounds: at least £9 for every £1 spent running the Office.



National Audit Office

Department for Business, Innovation & Skills

The Customer First Programme: Delivery of student finance

Ordered by the House of Commons
to be printed on 18 March 2010

Report by the Comptroller and Auditor General

HC 296 Session 2009–2010
19 March 2010

London: The Stationery Office
£14.35

This report has been
prepared under section 6
of the National Audit Act
1983 for presentation to
the House of Commons
in accordance with
Section 9 of the Act.

Amyas Morse
Comptroller and
Auditor General

National Audit Office

16 March 2010

The Customer First Programme was established in 2006 to centralise the processing of applications for student loans and grants. Its main aims are to improve customer service (through faster processing and greater consistency); achieve financial savings; and improve governance.

© National Audit Office 2010

The text of this document may be reproduced free of charge in any format or medium providing that it is reproduced accurately and not in a misleading context.

The material must be acknowledged as National Audit Office copyright and the document title specified. Where third party material has been identified, permission from the respective copyright holder must be sought.

Contents

Summary **4**

Part One
Background **12**

Part Two
Operational performance
of the Customer First
Programme in 2009 **15**

Part Three
Challenges facing the
Programme **29**

Appendix One
Methodology **38**

Appendix Two
Student funding **39**

The National Audit Office study team
consisted of:

Paul Bilton, Amma Boamah,
Richard Douglas, Alex Games,
Sarah Prior, Riaz Rahman,
Kevin Summersgill and
Paul Wright-Anderson, under the
direction of Janice Lawler.

This report can be found on the
National Audit Office website at
www.nao.org.uk/studentloans2010

For further information about the
National Audit Office please contact:

National Audit Office
Press Office
157-197 Buckingham Palace Road
Victoria
London
SW1W 9SP

Tel: 020 7798 7400

Email: enquiries@nao.gsi.gov.uk

Summary

1 The Customer First Programme (the Programme) was established in 2006 to centralise the processing of applications for student loans and grants in England. Its main aims are to improve customer service (through faster processing and greater consistency); achieve financial savings; and improve governance. The Secretary of State for Business, Innovation and Skills has statutory responsibility for delivery of student finance and the Department for Business, Innovation and Skills (the Department) retains overall accountability for the Programme.

2 The assessment of finance applications had previously been done by local authorities but this role is being centralised and transferred to the Student Loans Company (the Company), a non-departmental public body. The Company began processing applications for new students for the 2009-10 academic year (the first of a three year phased introduction) in February 2009. The service run by the Company for students in England is known as Student Finance England.

3 Following media reports of problems with the Company's handling of applications in 2009, the Minister of State for Higher Education and the Company's Chairman asked Professor Sir Deian Hopkin to undertake a review, which was published in December 2009. The Department and the Company have accepted Professor Hopkin's recommendations in full. We began our evaluation of the first year of the Programme in October 2009 and have been able to go beyond Professor Hopkin's review in four main respects by:

- interrogating the Company's data to analyse its performance;
- surveying 1,000 first-year students regarding their experiences;
- examining financial data to assess value for money; and
- evaluating ongoing risks to the Programme.

Key findings

Developing a centralised system

4 The Department had a clear rationale for centralising the service, but both the Department and the Company underestimated the risks and did not do enough to mitigate them. The Company organised premises and staffing in time for the launch of the service, but centralisation involved new management and staff. The work was challenging, involving peaks in demand, complex regulations and inexperienced customers. Although the Company had run a one year pilot in 2006, covering 11 local authorities, and has continued this service, it was insufficient preparation for 2009 when it would be integrating a service previously carried out by 130 authorities.

Processing applications

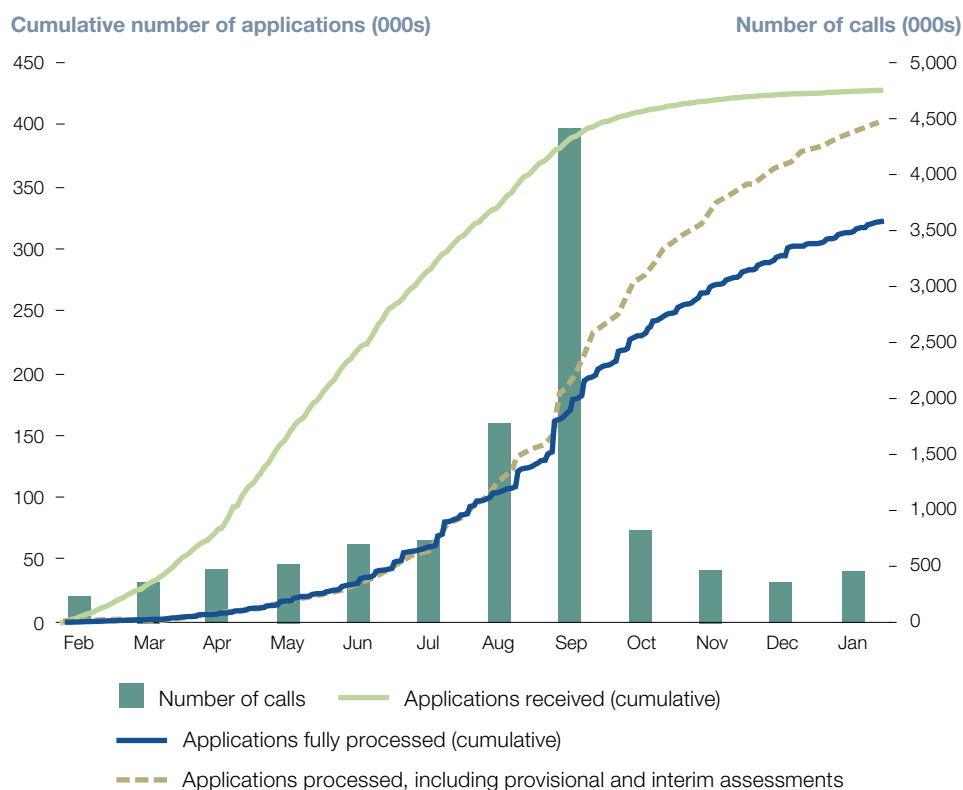
5 The Company made slow progress in processing applications, with only 46 per cent fully processed by the start of term compared with 63 per cent in 2008-09. From February 2009, applications arrived more quickly than the Company could process them and, by 6 September, 241,000 new student applications had been received but not fully processed. As a result, with the beginning of term approaching, the volume of phone calls grew dramatically to 4 million in September. From July, the Company made increasing use of provisional and interim assessments (76,300 by the start of term) which allow for faster payment but later require re-working by the Company (**Figure 1** overleaf). The Company considers that provisional and interim assessments are a well-established and legitimate mechanism where there is incomplete information or term start dates are imminent. However, these assessments are not equivalent to fully processed applications as those who receive provisional funding may have to repay part of their award and those who receive interim payments are awarded only the non means-tested amount which may not be adequate for their needs. By 15 November, around two months after the start of term, and with another 27,000 applications having arrived, the Company had fully processed and paid all monies due on 67 per cent of some 412,000 new applications, paid all monies claimed on a further 20 per cent of applications and made some payments on a further 3 per cent. At this time, 5,600 applicants who had applied before the administrative deadlines in April and June had not been paid.

6 The Programme is intended to reduce processing times, but the average time taken to process an application in 2009-10 was 33 per cent longer than in 2008-09. Our analysis found that an application took an average of 12.4 weeks to be fully processed in 2009-10, compared with 9.3 weeks in 2008-09 when local authorities were responsible for the assessment process.

7 Targets for processing applications do not cover the whole process from receipt to approval. The Company's target measures the time from application received to 'initial decision', which is not the same as fully processed. Fifty-two per cent of the Company's 'initial decisions' were a request from the Company for additional evidence from the applicant to allow the assessment to be completed.

Figure 1

Performance in processing applications and volume of phone calls, 2009-10



Source: National Audit Office analysis of Company data

NOTE

This analysis includes new applications processed by the Company in respect of the 2009-10 academic year and phone calls received by the Company in respect of all applications and loan repayments.

8 Management information is inadequate for Disabled Students' Allowances and other targeted support.

By 31 December 2009 only 4,000 (24 per cent) of 17,000 applications for the Allowances had been paid, taking an average of 20 weeks. This poor performance was invisible to management because targets set for the Allowances cover only part of the process. For other targeted support (Childcare Grants, Adult Dependants' Grant, and Parents' Learning Allowance) the Company has no management information that makes it possible to measure processing time.

Operational problems

9 The failure of the document scanning system was critical in 2009. A new scanning system was to provide electronic copies of documents to the processing teams. Launched before being fully tested, the system did not work as required and the Company's contingency plan was seriously flawed and its implementation delayed. As paper evidence from applicants arrived the Company failed to store it in a way that was easy to retrieve and a backlog built up. The Company told us that the contract did not sufficiently specify the scale of operation required but the supplier subsequently carried out additional work to enable the scanning system to be relaunched, which it expects to do in March 2010. The Company considers that sufficient contingency planning and testing have been carried out. However, it has been over-optimistic in the past and it remains to be seen whether the system will operate satisfactorily in a live environment in peak months.

Management of demand

10 The Company failed to communicate key messages to applicants that would have helped reduce unnecessary calls. The Company did not explain clearly when people should send in their applications, nor when they should expect to receive finance. The Company's contact centre staff could not answer enquiries because they had insufficient information about applications. IT changes could also have reduced unnecessary calls.

11 The Company failed to engage key stakeholders effectively. Communications with stakeholder organisations such as schools, universities and the Universities and Colleges Admissions Service (UCAS) were inadequate. These bodies could have helped keep applicants informed and provided insight to the Company. The Company is now setting up a new stakeholder forum.

Customer experience

12 Customer experience was very poor, particularly for those trying to telephone the Company. Over the period February 2009 to January 2010 the Company answered only 21 per cent of calls within 60 seconds, with 56 per cent unanswered. In the worst month (September), 87 per cent were unanswered.

Financial savings

13 The Company controlled its delegated Programme budget by making savings on operating costs, and the Department expects to achieve the planned annual savings of around £20 million from 2011-12. The Department expected the centralisation of the service to achieve these savings compared with local authorities for an initial investment of £41 million. With implementation costs exceeding estimates by £8 million, the Company has broadly stayed within its agreed funding for the Programme by reducing operating costs and deferring some elements of service improvement. In March 2010, the Department agreed in principle to provide additional operating cost funding of £9.8 million in 2010-11, but it expects the Company to bear down on its operating costs and to make a reasoned case for the level of funding it considers necessary in future. In addition, applicants and higher education institutions have incurred costs as a result of the problems in 2009.

Oversight of the Customer First Programme

14 The Company's Board did not perform its oversight role effectively. It was not aware of difficulties with processing applications until it was too late to prevent major problems. The Department modified the Company's framework for governance in 2009, and expected this to strengthen the governance of the Programme as well but is concerned that this was not effective in bringing about the changes it wanted to see. The Company considers that the Department conveyed neither this expectation nor this concern to its Board. The Company's Board is due to be strengthened during 2010, with the recruitment of three non-executive directors.

15 The Customer First Programme Board lacked expertise. Chaired by the Department, it has one representative from the Company and one from HM Revenue & Customs (which is delivering specific work within the Programme). The Programme Board has no expertise in IT, finance or human resources, nor any experience of undertaking a major centralisation project. The Department had wanted these skills to be involved at sub-programme board level, to encourage the delivery bodies to take full responsibility. However, this should not have been a substitute for the Department bringing in expertise to support its scrutiny. The Department is now proposing to strengthen the Programme Board by bringing in experts to challenge the Company.

16 The Department did not monitor the Student Loans Company effectively. The Department sought to be 'light touch' in its commissioning and oversight of the Programme, delegating operational responsibility to the Company. It accepted the Company's over-optimistic view that it would deliver a good service in 2009, and it was not aware of difficulties with processing applications until it followed up a specific complaint from a customer at the end of August. The Department's experiences of problems with other devolved delivery and the weaknesses in the Company that it had identified in 2006 should have served as a warning of the risks attached to such a challenging programme. In particular, the management information requested by the Department did not present an accurate picture of performance.

Ongoing risks

17 **Avoiding a recurrence of the 2009 problems is of the highest priority for 2010, but substantial risks remain to the successful delivery of the service.** The service in 2009 was unacceptable and the Department and the Company recognise the need to address the serious failings. The Company expects to process at least twice as many applications in 2010, when it becomes responsible for applications from both first and second years, and it is unproven whether it has the capability to provide a good service this year. The Company needs to increase capacity in processing and its contact centre in the peak months, and use this year's additional funding effectively. The Department may need to defer its requirement for operating cost savings in order to achieve greater assurance that sufficient resources are deployed in time to meet demand. It must also consider how it would respond to a recurrence of the failures of 2009.

Value for money conclusion

18 The Student Finance England service did not achieve value for money in 2009, with major problems in the processing of applications and customer contact. The Company took 33 per cent longer to process applications in 2009 compared with local authorities in 2008; and only 46 per cent of new applications had been fully processed by the start of term. The Company has not allocated sufficient resources to processing applications for Disabled Students' Allowances and other targeted support; and some applicants may have been deterred from starting or continuing in higher education. The Department and the Company's Board underestimated the very challenging nature of the Programme and lacked sight of the mounting problems, resulting in a failure to act swiftly or effectively. There is a strong rationale for continuing the centralisation, and the Department still expects to secure savings of around £20 million a year from 2011-12. However, this benefit would be outweighed greatly by continued poor service in administering £5.4 billion of loans, grants and allowances.

19 In 2010 the Department and the Company must give the highest priority to achieving a radical improvement in the service, while managing substantial risks. An incremental improvement will not be enough to restore the confidence of applicants and stakeholders and the reputation of the Company and the Department.

Recommendations

Timing is critical to success. Our recommendations need to be implemented urgently and driven forward simultaneously where possible, with constant monitoring of a critical path leading to the successful delivery of student finance for the 2010-11 academic year.

- a The Department and Company must do everything possible to avoid repeating the serious failings of 2009. In particular, the Department should:**
 - develop clear, customer-focused targets for all loans, grants and allowances covering the process from application to approval;
 - improve its oversight of operations, including by obtaining professional expertise to advise on service readiness;
 - strengthen the Programme Board to include the right skills; and
 - ensure the Company is not overburdened with change requirements during 2010.
- b The Department and the Company's Board should actively monitor the Company's implementation of the following actions:**
 - deploy sufficient, flexible resources to process applications and handle customer contact to at least the standards agreed with the Department during 2010;
 - activate robust contingency plans in the event that significant backlogs start to develop;
 - reduce unnecessary calls, through proactive and frequent communications with customers and stakeholders, for example, by letting applicants know when they will receive their finance;
 - establish an improved management information regime to track operational performance; and
 - use the recruitment of new executives to drive through a real improvement in the Company's culture and quality of management throughout.
- c The Department and Company urgently need to strengthen their relationship so that there is mutual trust, open communication and shared understanding of how to deliver the service this year.**

- d** The Department must undertake an urgent options appraisal to determine how best to deliver the service from 2011 onwards if the service should fail to improve radically. Options should include:
 - continuing with the Company;
 - appointing an alternative provider to deliver part of the service, such as targeted support; and
 - appointing an alternative provider to replace the Company in delivering the entire service.
- e** The Department and Company should work together to simplify the Student Finance England service through streamlining processes and regulations, and pressing ahead with the planned improvements in technologies, prioritising those which offer the clearest value for money.
- f** Government departments should learn from the problems encountered by the Company and the Department in 2009, focusing in particular on:
 - the need for realistic programme risk assessments;
 - designing programme implementation so that departments are not committed to a service delivery model before they can be sure that they will be successful;
 - achieving the right balance between implementation costs, operating costs and service levels; and
 - developing oversight mechanisms that involve sufficient skills and experience, robust information, and a willingness to challenge service providers effectively.

In addition, we fully endorse the recommendations of the Hopkin Review (www.bis.gov.uk/hopkin).

Part One

Background

1.1 Students from England who study full time in higher education in the United Kingdom¹ may be entitled to subsidised loans to cover their tuition fees and help meet their living costs. Students in particular circumstances (for example, with a disability or with caring responsibilities), or from households with relatively low income, may be eligible for additional support (see Appendix 2). In financial year 2008-09, loans advanced and grants paid totalled £5.4 billion.²

1.2 The Secretary of State for Business, Innovation and Skills has statutory responsibility for delivering student support in England. Under the Customer First Programme (the Programme), assessment of applications for student support, previously delegated to local authorities, is being transferred to the Student Loans Company (the Company) and this service is now known as Student Finance England. The Company is a non-departmental public body, chiefly funded by, and answerable to, the Department for Business, Innovation and Skills (the Department). Established in 1990 to administer loans, since 2003 the Company has run a centralised computer system and a contact centre on behalf of local authorities. For the 2009-10 academic year, the first in a three-year transfer programme, the Company assumed responsibility for processing applications from new students. Local authorities will continue to assess applications from students who started university before this date, until the 2011-12 academic year, when the Company will process and pay all applications. There is no contract between the Department and the Company, but their relationship is set out in a formal governance document.

Rationale for the Programme

1.3 In a review of the student finance system published in January 2006,³ the Department found that the current service was unsatisfactory, and that better value could be achieved through a fully centralised service, similar to that of the Student Awards Agency for Scotland. Its aim was to radically transform the delivery of financial support for higher education students, including the creation of electronic data links with other organisations. Improvements were expected in the following areas:

¹ Part-time students are not entitled to loans but can apply for two means-tested grants.

² £4.2 billion new loans were issued in 2008-09 (Department for Innovation, Universities and Skills, *Resource Accounts 2008-09*, HC 457, July 2009) with £1.2 billion spent on student support grant (National Audit Office analysis of Departmental accounting systems).

³ *Improving the student finance service (End-to-End Review)*, Department for Education and Skills, January 2006.

- **Customer service** – the service would achieve faster processing times, provide clearer information for applicants, and remove the variability between local authority average processing times;
- **Financial savings** – centralising the service was originally estimated in 2006 to cost £10 million to £15 million (which, after more detailed work, was revised to £41 million in 2007) and allow annual benefits of up to £20 million;⁴ and
- **Governance** – a single body, rather than 150 local authorities,⁵ was expected to provide consistency of service and improve accountability.

The Department appointed the Company as the most appropriate body to design and operate the new service and deliver specific improvements, so as to allow the Department to focus on strategic issues whilst retaining overall accountability for the Programme. The new student finance service went live in February 2009, four and a half months later than planned because of late changes to the regulations that determined the level of student awards. The Company has run a centralised service for 11 authorities since a pilot in 2006-07 academic year.

Organisation and structure

1.4 The Department delegates responsibility for service delivery and improvement to the Company and monitors performance via the Company's Board and its own sponsorship team. Other organisations involved in the process are shown in **Figure 2** overleaf.

Problems in delivering student finance for the academic year 2009-10

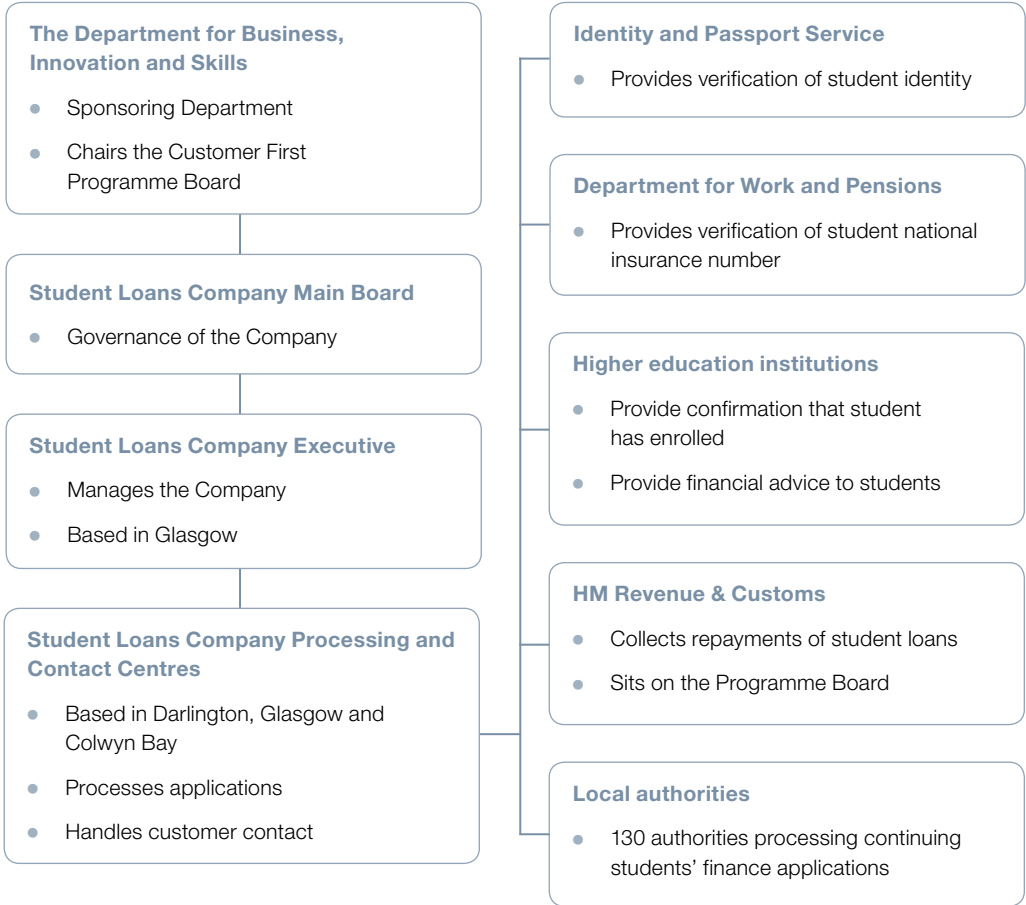
1.5 In September 2009, the media reported widespread concern over the delivery of funding for English students for the academic year 2009-10. Common complaints were that applicants trying to contact the Company by telephone were unable to get through, and others were receiving letters asking them for documentation they had already supplied. In response, the Minister of State for Higher Education and the Company's Chairman asked Professor Sir Deian Hopkin in October 2009 to undertake a review of the service. The report, which was delivered in December 2009, was highly critical and made recommendations to improve the service which have been fully accepted by the Department and the Company (www.bis.gov.uk/hopkin).

1.6 Professor Hopkin was asked to deliver his findings within a short timeframe and therefore welcomed the review of the Customer First Programme begun by the National Audit Office in which we examine the Company's data and provide a view on the value for money of the Programme. Part 2 of this report considers the Company's performance in its first year of delivering student finance and Part 3 examines the main challenges for 2010. Our methodology is summarised in Appendix 1.

⁴ The financial elements of this Review were updated by the Customer First Programme business case (July 2007) – see paragraph 3.15.

⁵ By July 2006 130 local authorities were involved in processing applications: the work of 11 had been taken over by the Company in its pilot, while others had contracted their operations to other authorities.

Figure 2
The organisation of the Student Loans Company and its key stakeholder organisations



Source: National Audit Office

Part Two

Operational performance of the Customer First Programme in 2009

2.1 This part of the report focuses on:

- developing the centralised service;
- processing applications;
- targeted support; and
- customer experience.

Developing the centralised service

2.2 In April 2006 the Company began a pilot, taking over processing responsibilities from 11 local authorities. At the time, consultants commissioned by the Department suggested this would be “extremely useful [...] in order to avoid surprises when the operational model is scaled to the national level”. While the Company did learn some lessons, it failed to design and test its pilot with “a clear eye on process and [...] design for the national scale”, as recommended in the consultants’ report.⁶ The Company argued in November 2009 that the pilot was of limited use “in part because the volume of work involved in running [it] was only about a tenth of the full volume” in 2009.⁷ The pilot was evaluated in 2007 but the exercise was not sufficient preparation for going live; nor was there any piloting of the document scanning system introduced in 2009.

2.3 In readiness for the planned launch in September 2008, the Company leased and fitted out new premises in Darlington for its processing and additional telephone contact capacity. The premises opened in June 2008, at a cost of £8.7 million, with the design winning national awards. During 2008-09 the Company recruited some 380 new staff in Darlington. For telephone enquiries, it supplemented internal staff with outsourcing to allow for flexible staffing levels; for processing applications, staff were employed on permanent contracts. This reduced the Company’s capacity to flex its resources to meet the cyclical nature of its work (**Figure 3** overleaf). Although the success of operations at Darlington would be critical to the performance of the new service, the Company did not relocate any executives from Glasgow to Darlington, relying instead on managers recruited locally. The Company later acknowledged the need for better leadership in Darlington, relocating an experienced senior manager from Glasgow in June 2009 and creating a permanent executive post in December 2009.

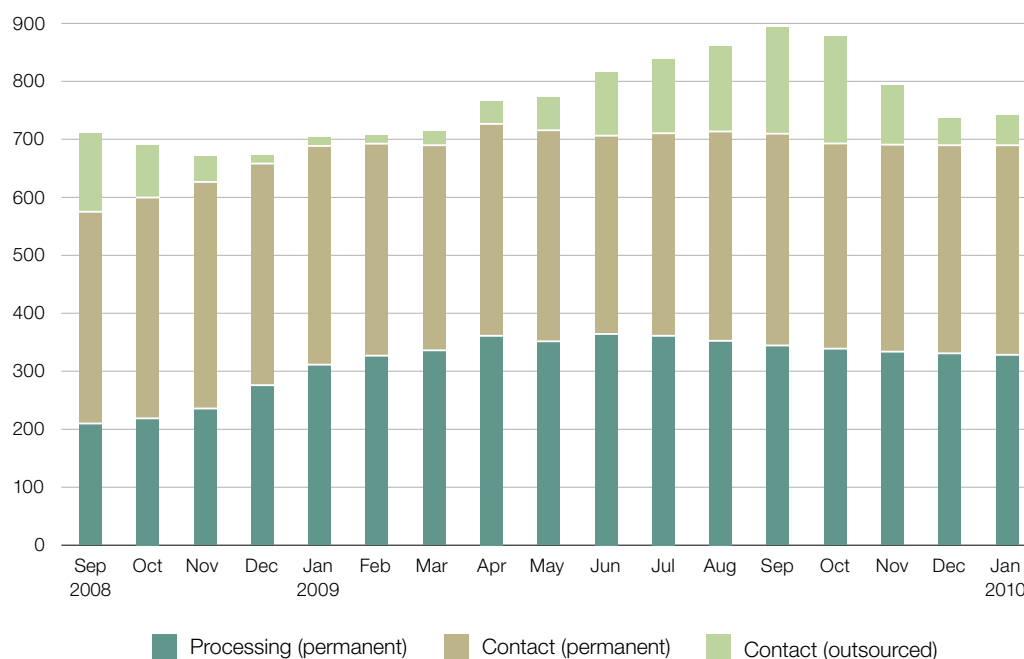
⁶ Mantix, April 2006.

⁷ Student Loans Company, *Lessons Learned from Service Delivery in AY 09–10*, November 2009.

Figure 3

Staffing levels in Student Finance England operations, September 2008 to January 2010

Student Finance England staff (full time equivalent)



Source: National Audit Office analysis of Company data

2.4 A key element of the new service was IT projects, estimated in the business case at £14 million, to provide new technology for the contact centre, scanning equipment, and secure data sharing with third parties such as the Identity and Passport Service, all of which built on a stable IT platform for assessing applications. At the end of December 2009, the Company was forecasting an overspend of £10.5 million on IT. This can be attributed in part to a £6 million overspend on the new contact centre technology and £1 million on the scanning solution. The specification for the contact centre technologies has significantly altered since the business case was developed and the solution is not currently operational. IT also accounts for three of the five Programme items the Department considers are at significant risk of non-delivery in academic years 2009-10 and 2010-11. The additional costs on IT were incurred with the knowledge that there were offsetting savings available within the overall Programme budget, as reported to both the Company Board and the Programme Board.

2.5 In the first year of the centralised system all applicants for means-tested support had to provide supporting evidence on paper. The Company planned to scan this in Glasgow, sending electronic copies to the processing teams in Darlington. The risk inherent in implementing a new scanning solution was not recognised by the Company, and there was insufficient project discipline and executive oversight of the solution. Following delays in implementation, the Company decided to launch the scanning in

April 2009 before it had been fully tested, expecting to resolve any teething problems as they arose. The Company and its supplier were, however, unable to scan work at the required volumes and after seven weeks' delay the Company decided to introduce a manual process.

2.6 Failure of the scanning solution had serious consequences for the processing of applications because the Company's business processes involved separating applications from supporting documentation. Its contingency plans did not cover this separation and the Company was forced to develop new processes in a 'live' environment in June 2009. In doing so, it failed to store paper documents in a way that was easy to retrieve and a backlog built up. The Company told us that the contract did not sufficiently specify the scale of operation required but that the supplier subsequently carried out additional work to enable the relaunch of the scanning in March 2010. It remains to be seen, however, whether it will operate satisfactorily in a live environment in the peak months. Deficiencies in the procurement process are due in part to the Company's decision to spend its budget before the end of the 2008-09 financial year.

Processing applications

2.7 Processing an application comprises three main stages: application, assessment, and payment (**Figure 4** overleaf). The applicant submits a paper or online application form and provides evidence of identity and income; the Company checks the details and issues an 'assessment of entitlement'; online applicants must then return a declaration form, accepting the terms and conditions of the loan; the Company then issues a payment schedule letter that entitles the applicant to funds on enrolment at university.

2.8 The Company's target, set by the Department, for processing applications measures the time from the application being received to 'initial decision'. Using this definition, **Figure 5** on page 19 shows the Company almost achieved its targets for processing online applications but performed poorly in processing paper applications (22 per cent of all applications). Compared with the previous year (when almost all applications were assessed by local authorities), the Company reduced the average time taken for an 'initial decision' from 17 working days to 8 working days.

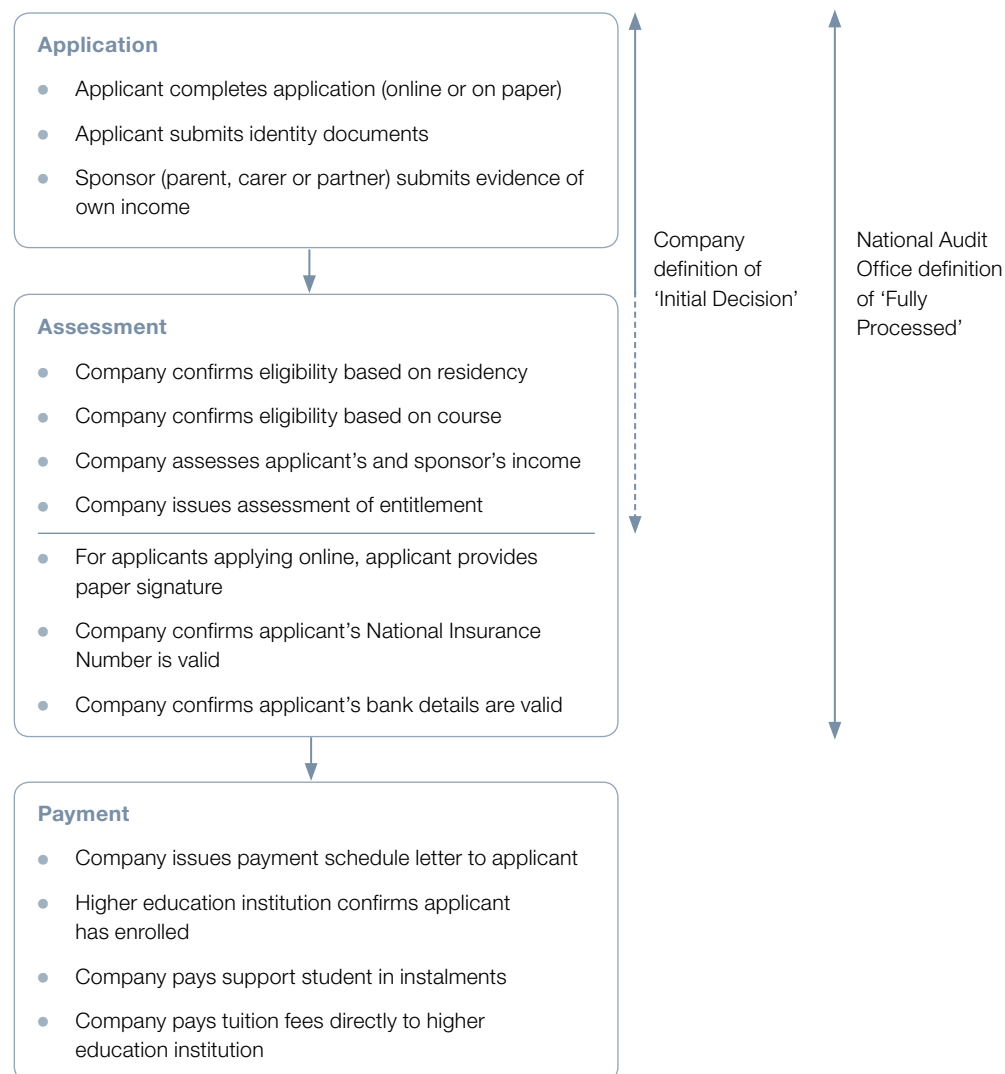
2.9 This target has serious weaknesses, however, as it does not cover the whole process from receipt of application to approval (see **Figure 4**). For 2009-10 applications, the 'initial decision' in 52 per cent of cases was a request from the Company for additional evidence from the applicant to allow the assessment to be completed. The clock does not restart once evidence is provided. For 2008-09, these cases represented 43 per cent of initial decisions made by local authorities or the Company.

2.10 A review of student finance published by the Department in 2006 was critical of the approach of stopping the target at 'initial decision', recommending the process be measured in full. It also proposed more stretching targets, including instant confirmation for online applications which do not require income verification, three weeks for other online applications, and four weeks for paper applications.⁸

⁸ End-to-End Review, Department for Education and Skills.

Figure 4

Key stages of the student support process

*Source: National Audit Office*

2.11 To measure the average time taken to fully process applications, we analysed the Company's data and found that for the 2009-10 academic year it took an average of 12.4 weeks to fully process a new applicant for tuition fees, maintenance grant or loan. As **Figure 6** shows, this is worse than the performance of the previous system, particularly for those applying on paper.

Figure 5

Student Loans Company performance against its target for an 'initial decision', 2009-10 academic year

	Target	Actual performance (%)
Online applications	70 per cent of applications within 15 working days	95
	98 per cent of applications within 20 working days	97
Paper applications	70 per cent of applications within 20 working days	35
	98 per cent of applications within 30 working days	71

Source: National Audit Office analysis of Company data

NOTE

This covers applications from English applicants received prior to 15 November 2009.

Figure 6

Comparison of time taken to fully process an application, 2008-09 and 2009-10 academic years

	Average time (weeks) to fully process an application		
	(All)	(Online)	(Paper)
New applicants			
2009-10 academic year (processed by the Company)	12.4	12.1	13.6
2008-09 academic year (processed by local authorities or the Company)	9.3	10.5	8.3
Difference	3.1	1.6	5.3
Returning students			
2009-10 academic year (processed by the Company – continuation of the pilot)	8.0	8.3	7.0
2009-10 academic year (processed by local authorities)	6.6	7.9	3.8
Difference	1.4	0.4	3.2

Source: National Audit Office analysis of Company data

NOTE

This analysis covers applications received and fully processed by 31 January 2010 for the 2009-10 academic year and by 31 January 2009 for the 2008-09 academic year.

2.12 The Company received applications steadily between April and September 2009, but made very slow progress in processing them. By 6 September, the number of new applications received but not fully processed peaked at 241,000. From July, productivity improved but the gap was closed only from September as the number of new applications fell and the Company made extensive use of provisional and interim assessments, which enable a payment to be made more quickly. The Company considers that such assessments are a well-established and legitimate mechanism where there is incomplete information or term start dates are imminent.

2.13 Provisional assessments enable the applicant to be paid the full amount claimed based on the limited information provided. The applicant must, however, submit further evidence, which may result in reduced funding. In processing the 2009-10 applications, the Company made around twice as many provisional assessments as had been made the previous year. With interim assessments the applicant receives only the non means-tested amount while information and evidence on income is sought by the Company.

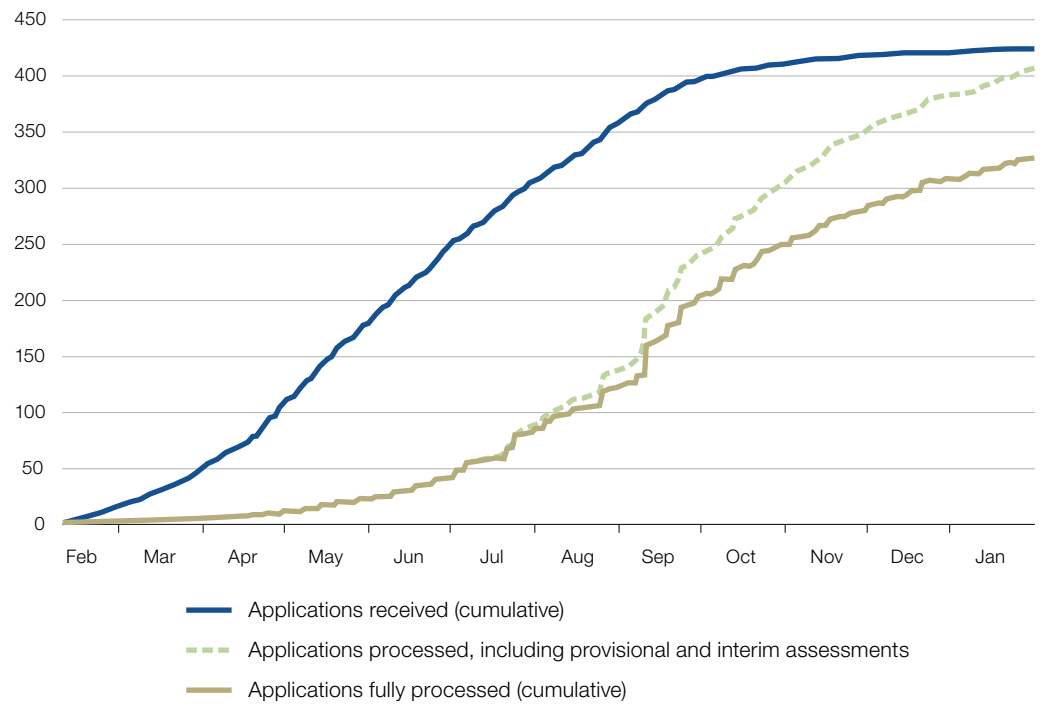
2.14 In both provisional and interim assessments, the applicant and the Company need to re-visit the claim and do additional work to finalise the application. By the end of January 2010 the Company had 80,000 provisional or interim assessments for new students awaiting resolution, and there were 18,000 applications which had received neither a provisional, interim nor full assessment (**Figure 7**).

2.15 By the start of the first term of the 2009-10 academic year, 385,200 new applicants had applied to the Company for funding. Of these, 176,200 (46 per cent) had been fully processed while 95,900 (25 per cent) were not approved and awaiting assessment. In 2008-09, 63 per cent had been fully processed by term start and 23 per cent were awaiting assessment by the Company or a local authority (**Figure 8** on page 22).

2.16 By 15 November, about two months after the start of term, the Company had received 412,500 applications from new applicants. Of these, 276,300 (67 per cent) had been fully processed and received all the monies due. A further 96,200 (23 per cent) had received a payment but were not fully processed (of which 81,200 had received the full amount claimed) and some 40,000 applicants (10 per cent) had not been paid. By 31 January 2010, the Company had fully processed and paid all monies due on 327,200 (77 per cent) applications (**Figure 9** on page 22). Performance still lagged behind that of the 2008-09 academic year as by 31 January 2009, 84 per cent of applications had been fully processed and received all monies.

Figure 7

The Company's performance in processing applications in 2009-10

Applications (000s)

Source: National Audit Office analysis of Company data

NOTE

This analysis includes new applications processed by the Company in 2009-10 academic year.

Figure 8

Comparison of processing performance as at the start of term, 2008-09 and 2009-10 academic years

	Academic year 2008-09		Academic year 2009-10	
		(%)		(%)
Applications received	360,800	100	385,200	100
Of which:				
Fully processed	228,000	63	176,200	46
Provisional and interim assessments	37,200	10	76,300	20
Not approved – awaiting information	12,000	4	36,800	9
Not approved – awaiting assessment	83,600	23	95,900	25
Of those applications not approved and awaiting assessment:				
Received within six weeks of term start	41,500	50	34,600	36
Received more than six weeks prior to term start	42,100	50	61,300	64
Total	83,600	100	95,900	100

Source: National Audit Office analysis of Company data. Data relate to new applicants who applied to the Company in 2009-10 and to local authorities in 2008-09 (and the Company in respect of the 11 pilot authorities)

Figure 9

Payment performance as at November 2009 and January 2010, 2009-10 academic year

	As at 15 November 2009		As at 31 January 2010	
		(%)		(%)
Applications received	412,500	100	424,000	100
Of which:				
Fully processed and all payments due made	276,300	67	327,200	77
Other applications on which a payment has been made	96,200	23	83,300	20
Not paid – awaiting information	18,400	5	1,600	0
Not paid – awaiting assessment	21,600	5	11,900	3
Of those applications not paid and awaiting assessment:				
Received since term start	6,800	32	7,100	60
Received up to six weeks prior to term start	5,200	24	1,800	15
Received more than six weeks prior to term start	9,600	44	3,000	25
Total	21,600	100	11,900	100

Source: National Audit Office analysis of Company data. Data relate to new applicants who applied to the Company in 2009-10

Targeted support

2.17 Some students are entitled to additional allowances or ‘targeted support’ (Appendix 2), budgeted at £178 million for the 2009-10 financial year. Our 2007 report on student retention highlighted the importance of Disabled Students’ Allowances, finding that students who obtain this allowance are more likely to continue their course than disabled students who do not receive it and students without any disability.⁹

Disabled Students’ Allowances

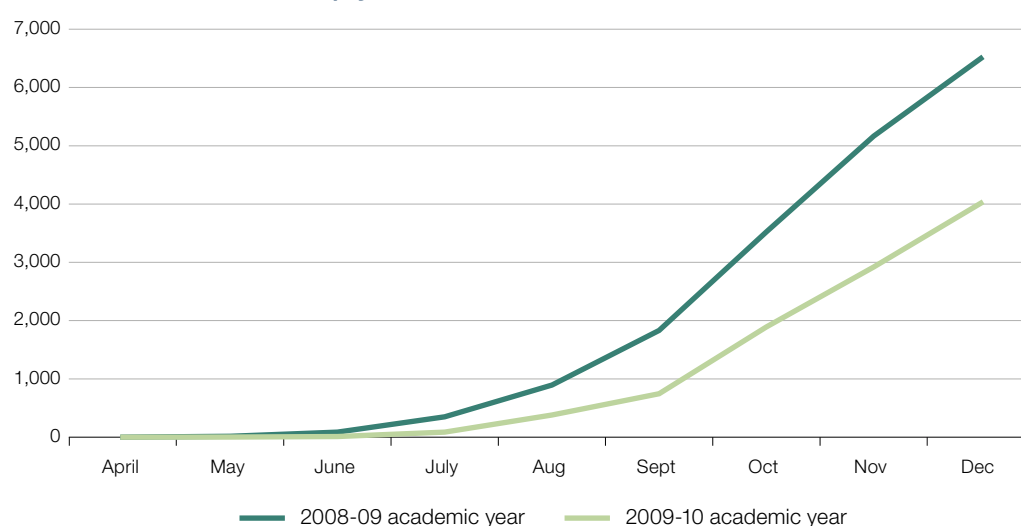
2.18 Disabled Students’ Allowances are the largest targeted support, costing £91 million in 2008-09. By 31 December 2009:

- the Company had received 17,000 applications for the 2009-10 academic year. Of these, 5,800 had been approved, and an unknown number had been rejected;
- payments (but not necessarily the full payment to cover their assessed needs) had been made in respect of only 4,000 applications (24 per cent); and
- there had been 2,500 fewer payments in respect of first year students than local authorities had made the previous year (**Figure 10**).

Figure 10

Payments of Disabled Students’ Allowances, 2008-09 and 2009-10

Disabled Students’ Allowances payments: cumulative total



Source: National Audit Office analysis of Company data

9 Comptroller & Auditor General, *Staying the course: The retention of students in higher education*, Session 2006-07, HC 616, National Audit Office, July 2007.

2.19 There are four stages to processing these allowances:

- i** The student applies to the Company, with medical evidence.
- ii** If deemed eligible, the applicant is told to attend a centre which assesses their needs, obtains quotes for products/services, and sends a report to the Company.
- iii** The Company decides what support to award.
- iv** The student or supplier submits an invoice or receipt to the Company.

2.20 The Department has set targets for two of these stages (**Figure 11**). By December 2009, eligibility had been established within target (15 working days) in only 45 per cent of cases, with entitlement established within target in just 15 per cent. The average processing time over this period for establishing eligibility was 18 working days; for entitlement, 22 working days. As with other claims, however, the Company does not measure the full process (i.e. all stages from application to approval), but our analysis of Company data showed it took an average of 20 weeks to pay a claim for Disabled Students' Allowances in full or part. Resolution of outstanding cases may increase or decrease this average.

Figure 11

Disabled Students' Allowances processing targets, 2009-10

Processing stage	Target	Actual performance
Stage 1: Establishing eligibility From the Company's receipt of an application to its decision on eligibility	98 per cent or above in 15 working days	45 per cent
Stage 2: Assessing the applicant's needs From the Company's advice to the student to arrange attendance at an assessment centre, to the centre's submission of its report to the Company	No target – the Company does not manage this part of the process	Not applicable
Stage 3: Establishing entitlement From the Company's receipt of an assessment report to its decision on funding	98 per cent or above in 15 working days	15 per cent
Stage 4: Payment of Allowances From the Company's receipt of an invoice to its payment	No target set	Not applicable

Source: National Audit Office analysis of Company data

NOTE

'Actual performance' covers the period February-December 2009.

2.21 Organisations representing disabled students have expressed concerns that due to delays and changes to assessments in 2009 there have been adverse impacts on students, suppliers and assessment centres. The Company says that while it may have handled cases differently from some local authorities, it is applying existing rules correctly and uniformly; and its requirement for assessment centres to obtain more than one quotation before paying for services has been welcomed by some groups. It remains clear, however, that the Company underestimated the volume of work required to process these applications and did not allocate enough staff to the task. While it increased staffing, from 14 to 25 in August, then to 36 in November, we consider that this is likely to be fewer than the number of experienced processing staff that worked within 130 local authorities.

Other targeted support

2.22 For 2009-10, the Department set targets for processing other support grants (such as Childcare Grant), but the Company did not collect the management information to record its performance against them. As the Company was unable to supply us with application, decision, or payment dates, it was impossible for us to examine its timeliness of processing this year, nor how the Company's performance compares with that of local authorities in previous years. The lack of a purpose-built IT system to collate and update this information impedes the ability of staff to process these applications efficiently.

Customer experience

2.23 The Company acknowledges that customers experienced a range of problems in 2009, chiefly because it:

- provided inadequate information and advice, leading to applicants and sponsors not understanding the process;
- was difficult to contact by telephone;
- could not provide information on the progress of applications because the IT systems provided contact centre staff with insufficient information;
- lost supporting documents; and
- confused applicants about the amount of support in their first payment (partly as a result of awarding interim payments).

2.24 Based on the resourcing of its contact centre for 2009-10, the Company set a target of answering 55 per cent of calls within 60 seconds (8 percentage points worse than it achieved the previous year), with no more than 14 per cent of calls abandoned.¹⁰ The Company accepts this is far below industry benchmarks, but still considers it to have been challenging given its resources. In 2006 the Department had noted the Company's then tougher target (answering 87 per cent of calls within 60 seconds) compared poorly with those used by other public sector organisations.¹¹

2.25 The Company failed to meet its targets in the period February 2009 to January 2010, answering only 21 per cent of calls within 60 seconds, with 56 per cent unanswered (**Figure 12**). In September 2009, the worst month, it received over 4 million calls (as many as in the whole of 2008-09), of which 87 per cent were unanswered. The Company's performance compares unfavourably with HM Revenue & Customs' (HMRC) contact centre operations, which we recently reviewed.¹² In 2008-09 HMRC answered 57 per cent of calls, and from April to September 2009 it answered 73 per cent of calls.¹³

2.26 In December 2009 we surveyed 1,000 first year students to ask their views on the Company's service. Our survey revealed widespread dissatisfaction with the service (**Figure 13**). Overall, only 43 per cent of students said the application and payment process was easy. This compares unfavourably with surveys carried out for the Department in previous years. Over the period 2004-2008, around 85 per cent rated 'ease of obtaining' payments as good or better, with 64 per cent considering applications 'easy to complete'. Overall negative findings are reinforced by a survey of Higher Education Institutions carried out in November 2009 for the Hopkin Review (**Figure 14** on page 28).

2.27 The financial impacts of poor customer service and delayed payments are difficult to quantify, but there is evidence that a sizeable number of applicants incurred costs. The biggest impact from poor customer experience could be for students to drop out. Some 11 per cent (112 respondents) of our survey said that, as a result of their experiences with the Company, they were more likely to drop out from university.¹⁴ We cannot say *how much* more likely these students were to drop out, nor how far the Company could be responsible for those who did. The figures are, however, an indication of the potential impact on students who experience difficulties in obtaining their student finance.

10 The Company's 'calls abandoned' target refers to callers who hang up while waiting in a queue. It does not include callers who cannot get through at all. In reporting the Company's performance against this target we are including calls which could not get through (thus reporting the total number of 'unanswered calls'): we believe this is the accurate measure of performance as experienced by customers.

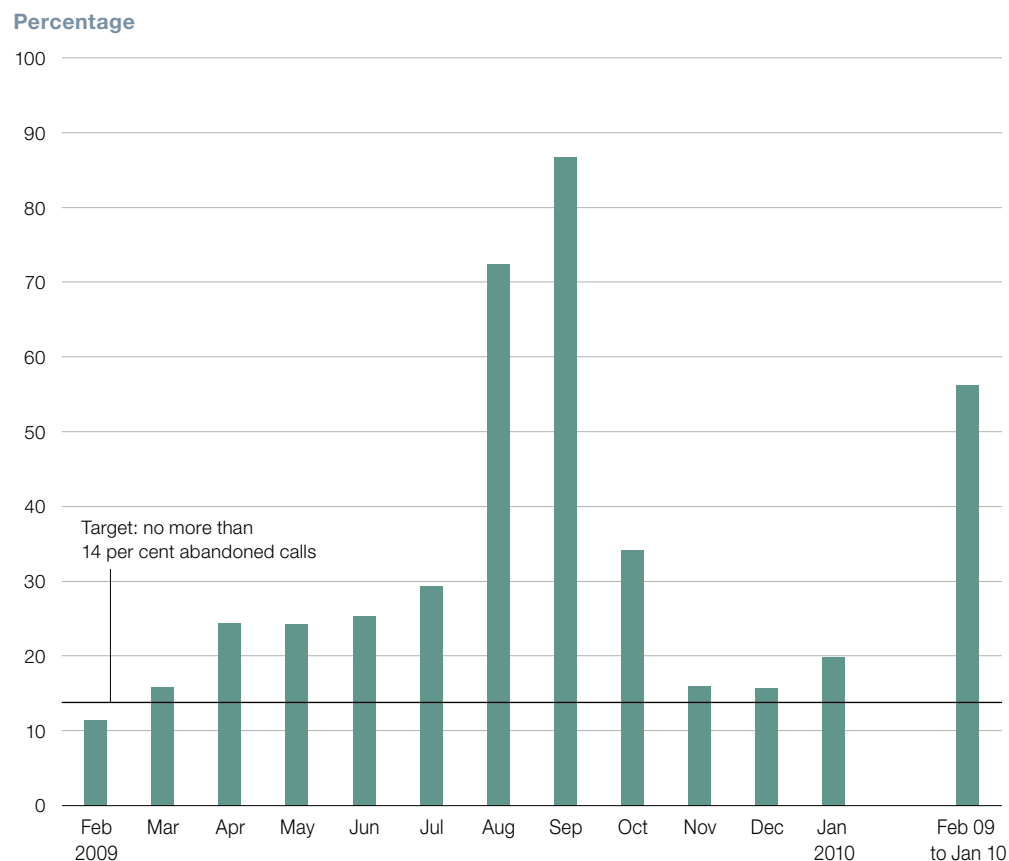
11 *End-to-End Review*, Department for Education and Skills. Best practice in the industry is to answer 95 per cent of calls. Comptroller & Auditor General, *HM Revenue & Customs: Handling telephone enquiries*, Session 2009-10, HC 211, National Audit Office, January 2010; Dimension Data, *Dimensions Data Global Benchmarking Report*, 2008.

12 Comptroller & Auditor General, *HM Revenue & Customs: Handling telephone enquiries*.

13 In the case of both HMRC and the Company, we calculate percentages of calls answered/unanswered with reference to all call attempts, including those which do not get through. However, HMRC's figures for 2008-09 exclude calls answered by recorded message. If the Company's figures are reported on this same basis, it answered 36 per cent of calls, February 2009 – January 2010.

14 The question we asked was: "How have your experiences with Student Finance England affected your likelihood of staying on to complete your course?" For reference, around 9 per cent of first years (enrolled at 1 December) do not continue into their second year. *Performance Indicators 2007/08: Non-continuation rates*, Higher Education Statistics Agency, June 2009.

Figure 12
Calls unanswered by the Company



Source: National Audit Office analysis of Company data

NOTE

These figures comprise both callers who hang up while in a queue and those who receive the engaged tone (the Company's target refers only to the former).

Figure 13
Problems students experienced with the Company

	Percentage
Asked to send same documents more than once	51
Waited over three weeks for substantive reply to written query	50
Had to ring more than five times before speaking to someone	31
Had not received substantive reply at time of survey	22
Told by Company it had lost their documents	17
Could not get through to speak to someone	10

Source: National Audit Office survey of students

Figure 14

Findings from the Hopkin Review survey of Higher Education Institutions, 2009

- Ninety-seven per cent said experience with student finance applications worse than in 2008.
- Ninety per cent said student body experienced significant or very significant difficulties with the Company in 2009.
- Eighty-eight per cent reported rise in finance enquiries from student compared to 2008.
- Thirty-five per cent said as a result they had incurred extra administration costs of up to £25,000 (and a further 60 per cent were unable to say how much extra they had incurred).

Source: National Audit Office analysis of Hopkin Review survey data

NOTES

- 1 Percentages exclude those who did not respond.
 - 2 Overall, in at least 28 of 221 cases the same university submitted more than one response.
-

Part Three

Challenges facing the Programme

3.1 The student finance system performed poorly for the 2009-10 academic year. This part of the report therefore examines the main challenges the Department and the Company will face in 2010.

The challenging nature of the Programme

3.2 The Programme is inherently high risk because it involves:

- centralising a service provided by around 130 local authorities with a large number of inexperienced customers;
- challenging and cyclical work, governed by complex regulations;
- some new IT and business processes; and
- mostly new staff working under new management.

3.3 Many of these risks were highlighted at an early stage. In April 2006, consultants commissioned by the Department identified the delivery model as 'high risk'. In March 2007, an Office of Government Commerce Gateway Review made six recommendations to improve performance of the Programme, two of which were urgent, resulting in an overall 'Red' RAG (Red/Amber/Green) status. Subsequent Gateway Reviews were, however, increasingly positive: in February 2008 the Programme was assessed as 'Amber', and in July 2009 the Office assessed the Programme's 'delivery confidence' as 'Amber/Green'.

3.4 The Programme continues to be very high risk. Although the Company now has the benefit of a year's experience, it expects to process at least twice as many applications in 2010. This is partly because the Company will retain responsibility for the second years it processed as new students in 2009 (though returning students should be easier to process), and partly because the number of applications from new students is expected to rise again.

3.5 In addition, the Department and the Company should have learnt from the problems in remodelling the Education Maintenance Allowances service in 2008. From 2002 to 2008, this financial support to young students was delivered by two service providers on behalf of the Learning and Skills Council. In 2008, with the aim of improving the service and achieving efficiencies, the service was centralised under a new contractor. Following IT problems and cost overruns, many payments to students were delayed.

The choice of the Student Loans Company as service deliverer

3.6 In July 2006, the Department announced that the Company would deliver the new centralised service for England. It was selected primarily because of its existing involvement with the service provided by local authorities: managing the IT used to process applications, making payments, and answering general calls. The Department considered tendering the work to the private sector, believing this might reveal the best provider in terms of cost and quality, but decided it would carry higher risks. For example, the Department was concerned that a contractor might not deliver the service required if its performance targets were not well-designed, and that changing requirements might result in disagreements and escalating costs.¹⁵ The Department did not fully appreciate how these generic risks still applied to managing delivery through an arm's length public body.

3.7 The Department was well aware, however, of particular risks in choosing the Company. Reviews in early 2006 had highlighted weaknesses in its culture and capabilities, including its contact centre, stakeholder communications, and management capacity.¹⁶ The Department commissioned the Company to run an organisational development programme to enhance its capacity to deliver. The Company acknowledged its need to change, introduced such a programme in 2007, but it was incomplete at the time the service went live. In its review of lessons learned, the Company acknowledged that its culture had contributed to the problems in 2009. Crucially, the Company did not sufficiently understand its customers, many of whom are inexperienced young people who need guidance. The Company's failure to empathise with its customers was particularly apparent in the relative lack of priority given to processing applications for targeted support – i.e. from those most in need.

3.8 The Company is preparing fresh proposals to transform its culture. Following the Hopkin Review, and resignation of two directors, it intends to appoint a Chief Operating Officer and three new directors. If these measures do not significantly improve performance in 2010, the Department will need to develop the option of contracting part or all of the service to other providers.

Service quality

3.9 There is uncertainty about how well the service will run in 2010. After further testing, the scanning system is to be relaunched in March 2010; it will handle relatively low volumes of work at first compared with the peak the Company will experience later in the year. The Company intends to double the capacity of its contact centre in the peak month, mainly through increased outsourcing.

¹⁵ *End-to-End Review*, Department for Education and Skills.

¹⁶ *End-to-End Review*, Department for Education and Skills; *Feasibility and Implementation of the End-to-End Review*, Mantix.

3.10 As with the 2009-10 academic year, before the launch of the applications process for 2010-11, the Department required the Company to provide assurance that its business processes were ready. Whilst the Department was concerned that the Company's contingency and communications plans were not sufficiently developed, both the Department and the Company's Board agreed to the launch of processing in December 2009, because further delay would increase risks to service standards, processing performance, and costs. The Company continues to develop contingency and resourcing plans, with more assurance work planned with the Department for the coming months.

Management of demand

3.11 The Company did not manage demand well in 2009. To help manage its workload it set deadlines for applications (April or June, depending on the type of application), which sought to encourage early applications with the understanding that, whilst it would still process applications received afterwards, those who complied with the deadlines would definitely be paid on time. However, the Company did not advertise the deadlines on its website where 78 per cent of applicants completed their application form. Consequently, a significant number of students (60 per cent of the applications received by the start of term) applied after the April/June deadlines – although 5,600 of those new students who did apply before the deadlines had still not been paid by 15 November.

3.12 Our survey shows that the Company's actions were responsible for a high volume of unnecessary calls. Half of the survey respondents (52 per cent) had called because they had received no response to their application; 44 per cent said that the Company had sent them a confusing message; and 42 per cent could not find the answer to their query on the website. The most common specific reason to call in the first half of 2009 was to reset a password – but it took the Company seven months to develop, test and implement the IT change necessary to allow users to independently reset them. The importance of communications is underlined by the main thing students told us they wanted the Company to improve: to keep them better informed about their applications.

3.13 The Company has prepared plans to manage demand better in 2010 by:

- communicating deadlines clearly on paper and online forms;
- using social networking to communicate;
- making more effective use of stakeholders;
- introducing a facility for applicants to submit change of circumstances online;
- making better use of 'customer insight' work to reduce avoidable contact; and
- increasing its contact centre staff and outsourcing more calls.

3.14 Overall, its communications with stakeholders – schools, universities, local authorities, UCAS, etc – were inadequate in 2009. Although the Department and Company acknowledged the importance of stakeholder communication during planning, the Company did not follow this up. This was a missed opportunity to disseminate information as stakeholders dealt with large numbers of applicants but had little information to offer them. Following the Hopkin Review, the Company is setting up a new stakeholder forum.

Expected financial savings

3.15 The Department had sound financial reasons for undertaking the Programme as it expected to make annual savings of around £20 million from April 2011 for an initial investment of £41 million in implementation costs. The Company's operating costs were to be far less than the grants to local authorities for processing applications, although the actual costs of the service were not known.

3.16 The Department expected the Company to stay within the overall funding agreed in the business case in July 2007. The Company has achieved this up to March 2010 and, with the consent of the Department, is offsetting overspends on implementation, mainly due to higher IT costs, through reduced operating costs (including reduced spend on information, advice and guidance) (**Figure 15**). From 2011-12, it expects its operating costs to be in line with the business case.

3.17 The significant increase in implementation costs meant that the Company and the Department have agreed that certain items originally specified in the Programme will no longer be delivered as part of the Programme (**Figure 16**). The Programme budget included £3.6 million for these items, and they were expected to deliver savings in processing costs. Some other Programme elements that should improve the customer experience are being delivered in 2010.

Figure 15

Summary of the Company's financial costs under the Programme, to March 2010

	Business case (£000s)	Latest forecast (£000s)	Variance (£000s)
Implementation costs	34,420	42,799	-8,379
Operating costs	33,820	25,420	8,400
Total Programme costs	68,240	68,219	21

Source: National Audit Office analysis of the Company's financial information

NOTE

Latest forecast includes actual costs until 31 December 2009 and forecast costs thereafter. Operating costs exclude funding from the Department to meet the Company's costs of running the service for 11 authorities and to process higher than expected volumes of applications for 2009-10.

Figure 16

Key elements of the Programme at risk or cancelled

Year of delivery (scheduled)	Planned service improvement
2009-10	Redesign of paper application forms
2009-10	Targeted support application forms to go online
2009-10	Streamlining of Childcare Grant processes
2010-11	Ongoing data-sharing with UCAS (to automatically provide and update student finance offers for an applicant's course and university choice, with the ambition of providing offers in respect of up to five university choices)
2010-11	Written correspondence enhancements (allowing applicants and advisers to access all correspondence)

Source: Department's submission to the Hopkin Review and comments from the Company

NOTE

'Year of delivery' refers to academic year for which applications for support are processed.

3.18 The Company estimates the total costs for Student Finance England services in financial year 2009-10 at £53.2 million, including the cost of providing pre-existing services, such as managing payments and providing a central IT system for assessments. It includes an additional £2.8 million allocated by the Department to pay for the cost of processing more applications than forecast in 2009-10. The Company also expects to spend £4.5 million on a redundancy programme to reduce its annual operating costs by an expected £6 million. These redundancies arise from reductions in the Programme team as its development work tails off, as well as more general efficiency savings in services such as human resources and finance.

3.19 A key target of the Programme was to reduce the unit cost from £68 to less than £40. Up to 2009-10 the Company is delivering savings exceeding those in the business case and expects to achieve the £40 target by 2011-12. The forecast target for 2009-10 is £55. The Department will need to consider whether its requirement for savings should be deferred until the Company is running the service properly.

3.20 The Student Awards Agency for Scotland, which processes applications from Scottish students, was used by the Department as a comparator in the planning of the Programme. As **Figure 17** overleaf shows, the cost of processing an application in Scotland was significantly below the pre-centralisation system in England. The Company and the Department expect this gap to narrow, although, as with all benchmarking, care needs to be taken in interpreting this as the regulations are not identical in the two countries.

Figure 17

Comparison of unit cost of processing in England and Scotland

	2006-07 Actual (£)	2007-08 Actual (£)	2008-09 Actual (£)	2009-10 Forecast (£)	Target for 2011-12 (£)
Student Finance England	62.31	62.53	61.55	51.81	36.81
Student Awards Agency for Scotland	37.44	37.58	37.12	Not available	34.00

Source: Department for Business, Innovation and Skills and Student Awards Agency for Scotland

NOTE

These figures exclude payment and repayment (which the Student Awards Agency for Scotland does not perform) and are therefore not directly comparable with those in paragraph 3.19.

3.21 The problems of 2009 and the rise in number of applications have created additional financial pressure at a time of reduced funding in the higher education sector. In March 2010, the Department agreed in principle to provide additional operating cost funding of £9.8 million in 2010-11, to cover temporary staffing for the contact centre and application processing, implementing the recommendations of the Hopkin Review, and other pressures on the Student Finance England service. The Department expects the Company to bear down on its operating costs and to make a reasoned case for the level of funding it considers necessary in future. It has not yet changed the unit cost target for 2011-12.

Oversight of the Company and the Programme

3.22 While Ministers remain accountable for the service, the Department's aim was to progressively delegate responsibility for frontline services to its delivery partners. For oversight to be effective, there need to be clearly defined responsibilities, good challenge, and access to insightful information. Oversight of the Company and the Programme comes mainly through:

- the Company's Board which includes six non-executive directors and meets 10 times a year;
- the Programme Board, which includes one representative from each of the Department, the Company and HM Revenue & Customs; and
- the Department's sponsorship team.

3.23 The Department had introduced a new 'Service Management and Accountability Framework' which it intended would provide a strengthened and clearer role for the Company's Board in holding the Company's executives to account and in ensuring that robust strategies and sufficient capabilities were in place. The Department is concerned that the change it had wanted in governance, did not actually occur in 2009. The Company considers that the Department did not communicate its expectations of, and concerns about, the Company's Board. The Hopkin Review recommended that the Board should challenge leadership more effectively over performance and risk, and that the skill-set and role of non-executive directors should be reviewed. It also commented that the non-executives had no experience of management in higher education. The Ministers as shareholders will appoint three non-executives during 2010, which provides an opportunity to bring in this specialist knowledge.

3.24 The Company's Board undertook limited oversight of the Programme. Board members viewed the Programme as operating at arm's length until activities became 'business as usual', at which point the Board would take ownership of delivery. It did not, however, have a formal process for assuring itself that it was ready to do so. Though the Board received monthly reports on the parts of the Programme for which the Company was responsible, and was told in May 2009 of scanning problems, it was not made aware of difficulties with processing applications until late August 2009, by which time it was too late to prevent major problems occurring.

3.25 Although the Office of Government Commerce advises that programme boards should include representatives of corporate functions, the Customer First Programme Board did not include representatives from IT, finance, human resources, or others with experience of undertaking a major centralisation project.¹⁷ Neither did the Programme Board include a member who would champion the interests of customers. The Department decided not to include these skills or representatives because it wanted a 'light touch' approach, with a smaller Programme Board than had been the case with previous programmes involving the Company. Instead, it wanted these skills to be involved at sub-programme board level, to encourage the delivery bodies to take full responsibility for their areas of accountability. However, this should not have been a substitute for the Department bringing in expertise to support its scrutiny. The Department is considering how it will strengthen the Programme Board, including the appointment of a member who would champion the interests of customers.

3.26 At the point of deciding whether or not to launch the service with the Company in late 2008 and early 2009, the Department and the Company did not have a realistic alternative to proceeding with the plan, as they had failed to develop detailed contingency plans in the period from March 2007. Although the Department had taken steps to minimise the risks of transfer from the local authorities by operating a three year transition programme beginning with first year students, it did not make arrangements with local authorities to extend the pilot or delay the transfer, if necessary, because it considered that it would not be possible to obtain the agreement of all local authorities. Risk mitigation was considered to be provided by the low volume of applications expected at first when compared with the resources available within the Company.

¹⁷ *Managing Successful Programmes*, Office of Government Commerce (2007).

3.27 Our 2009 report on commercial skills made recommendations for the Government's use of the private sector to deliver projects, not least the need to improve contract management expertise.¹⁸ The problems in the Customer First Programme underline the need for departments to study how these recommendations also apply to delivery through arm's length public bodies. Our reports on the problems experienced by the Department for Environment, Food and Rural Affairs in delivering farm payments through the Rural Payments Agency also provide valuable lessons for delivery through arm's length bodies.¹⁹

3.28 The Department recognises it has had problems with its sponsorship of such bodies, for example it failed to recognise the problems with the Learning and Skills Council's capital programme.²⁰ To improve sponsorship across the Department, from 2009 it has introduced a sponsorship development function which provides tools and guidance for sponsors. The Department has also developed a risk-based approach to determining its approach and resources for sponsoring individual bodies. It is too early to say what impact these measures will have on the Department's sponsorship function.

Management information and risk reporting

3.29 Governance and assurance arrangements were compromised by the quality of management information and the effectiveness of communications channels. The Company's balanced scorecard, introduced for the first time in 2009-10, formed the basis of performance discussions both at the Company's Board meetings and at performance meetings between the Company and the Minister of State or his representatives from the Department. Over the summer of 2009, the balanced scorecard failed to present an accurate picture of what was occurring and indeed in July 2009 the Company's Board noted that "it was pleasing to see that all the strategic aims were either Green...or Green/Amber [satisfactory]." The Company has a disparate set of management information systems and did not create the joined up reporting needed to run the new service. Information that we have seen from within the Company on processing performance, contact performance and customer satisfaction would have given senior management, the Board and the Department a more accurate picture of what was occurring on the ground but this was not part of the formal definition of the balanced scorecard measures. The Department did not insist on receiving such information until it followed up a specific complaint from a customer at the end of August. The design of the balanced scorecard, and the measures included, are currently being reviewed by the Company and the Department as part of the process of setting and agreeing targets for the 2010-11 financial year.

¹⁸ Comptroller & Auditor General, *Commercial skills for complex government projects*, Session 2008-09, HC 962, National Audit Office, November 2009.

¹⁹ In our most recent report (Comptroller & Auditor General, *A second progress update on the administration of the Single Payment Scheme by the Rural Payments Agency*, Session 2008-09, HC 880, National Audit Office, October 2009), we highlighted a number of underlying problems which bear similarities to those in the Customer First Programme, including: underestimation of the scale of work, over-optimistic assessments of capability, inadequate management information, and lack of detailed engagement by Defra in the operational issues faced by the Agency.

²⁰ Committee of Public Accounts, *Renewing the physical infrastructure of English further education colleges*, Forty-eighth Report of Session 2008-09, HC 924, July 2009, p. 5.

3.30 There were also serious deficiencies in risk reporting. From September 2008 to February 2009, the Customer First Programme Board assessed the risk of the Programme at the highest level – ‘Red’ – signifying that it was highly problematic and required urgent attention. This high status was not made known to the Company’s Board. Similarly, during this time the decision to go-live with applications in respect of the 2009-10 academic year was made by the Programme Board, which was advised by officials within the Department and the Company that completion testing was all ‘Green’. This was despite some key components, such as the scanning system, not being in place. These examples illustrate a lack of openness and judgement in recognising the significance of Programme-related issues, which resulted in risks not being reported appropriately and promptly.

Appendix One

Methodology

Data analysis:

- applications processing data
- customer contact data
- financial information

To assess the volume of applications processed, the Company's success in meeting agreed service levels, the success of the Programme in meeting customer expectations and the financial success of the Programme.

Benchmarking:

- Student Awards Agency for Scotland (SAAS)
- UCAS

To gather evidence on the design, implementation, management and success of comparable organisations' processing systems.

Document review

To gather evidence on how the Department and the Student Loans Company have designed, implemented and managed the Programme.

Semi-structured interviews:

- Department officials
- SLC representatives
- Key stakeholders

To gather evidence on how both the Department and the Student Loans Company have designed and implemented the Programme, how successful the Programme has been in delivering its planned objectives and how key challenges have been dealt with.

Survey of 1,004 students who applied for support in 2009, conducted by Opinionpanel Research

To assess customer experience of the Company's service.

A full version of the study methodology is available at www.nao.org.uk.

Appendix Two

Student funding

This funding is available to students normally resident in England and studying full time at a qualifying institution for a first higher education qualification in 2009-10:

Type of support	Loan or grant	Maximum amount (£ annual)	Notes
Tuition Fees	Loan	3,225	Paid in instalments to the institution.
Maintenance	Loan and grant ¹	6,928	Amount also depends on place of study and where student lives during term time. Up to £2,906 is payable as a grant.
Special Support Grant	Grant ¹	2,906	Available to students on income-related benefits in place of Maintenance Grant. A full loan can also be claimed by students eligible for this.
Disabled Students' Allowances ²	Grant ¹	27,405	Available to students with extra costs resulting from physical or mental disability or specific learning difficulty. Amount is based on needs assessment.
Childcare Grant ²	Grant ¹	13,260	Available to students with children who use a registered child minder. Amount also depends on number of children and childcare costs.
Parents' Learning Allowance ²	Grant ¹	1,508	Available to those with dependant children for help with cost of learning materials.
Adult Dependents' Grant ²	Grant ¹	2,642	Available to students with caring responsibility for another adult.

NOTES

1 All grants mean-tested.

2 Collectively known as 'targeted support'.



Design and Production by
NAO Marketing & Communications Team
DP Ref: 009235-001

This report has been printed on Consort 155 and contains material sourced from responsibly managed and sustainable forests certified in accordance with FSC (Forest Stewardship Council).

The wood pulp is totally recyclable and acid-free. Our printers also have full ISO 14001 environmental accreditation this ensures that they have effective procedures in place to manage waste and practices that may affect the environment.

Published by TSO (The Stationery Office) and available from:

Online

www.tsoshop.co.uk

Mail, Telephone, Fax & Email

TSO

PO Box 29, Norwich, NR3 1GN

Telephone orders/General enquiries: 0870 600 5522

Order through the Parliamentary Hotline

Lo-Call 0845 7 023474

Fax orders: 0870 600 5533

Email: customer.services@tso.co.uk

Textphone: 0870 240 3701

The Parliamentary Bookshop

12 Bridge Street, Parliament Square,
London SW1A 2JX

Telephone orders/General enquiries 020 7219 3890

Fax orders: 020 7219 3866

Email: bookshop@parliament.uk

Internet: <http://www.bookshop.parliament.uk>

TSO@Blackwell and other Accredited Agents

Customers can also order publications from:

TSO Ireland

16 Arthur Street, Belfast BT1 4GD

028 9023 8451 Fax 028 9023 5401

£14.35

